

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Addition of Gift Cards Price Category to
Greeting Cards and Stationery Product

Docket No. MC2014-26

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued June 20, 2014)

To clarify the basis of the Postal Service's request to add Gift Cards as a new price category to the Greeting Cards and Stationery Product,¹ the Postal Service is asked to provide written responses to the following questions. Answers should be provided as soon as possible, but no later than June 27, 2014.

1. In Attachment C of the Postal Service's Request, Part B Section 2610.2 of the Mail Classification Schedule lists the prices for gift cards. Open loop gift cards will cost customers the face value of the card plus an activation fee ranging from \$1.99 to \$8.99.
 - a. During the market test, the minimum planned activation fee was \$3.95 for a \$25 gift card and the maximum planned activation fee was \$5.95 for a variable card up to \$100. Please explain the basis for the change in the minimum and maximum activation fee prices (\$1.99 and \$8.99), and what face values of cards will be offered at the specific prices of \$1.99 and \$8.99.

¹ Request of the United States Postal Service to Add Gift Cards as a New Price Category in the Greeting Cards and Stationery Product, June 9, 2014 (Request).

- b. In the market test, gift cards were sold in fixed amounts of \$25 and \$50, and in variable amounts up to \$100. Is the Postal Service retaining the same pricing structure as was used in the market test? If so, please identify the prices that the Postal Service will charge for the fixed and variable cards. If not, please clearly explain how the proposed gift cards offering will be priced.
2. For the open loop gift cards, revenue is generated through activation fees. Please provide the percentage of the fee captured by the Postal Service and the percentage of the fee captured by American Express.
3. For the closed loop gift cards that do not have an activation fee, please explain the potential revenue sharing agreement that will allow the Postal Service to generate revenue from offering such cards.
4. Please provide gift card volume data for each type of card (*i.e.*, \$25, \$50, variable) sold by the Postal Service for each of the 6-month reporting intervals during the market test.
5. In the Gift Cards Data Collection Report - FY 14, Q1-2 (Docket No. MT2011-2), the Postal Service discussed a “two-week promotion from November 29 to December 12, 2013, during which 85,422 gift cards were purchased at no fee to the customer.”
 - a. Since no fee was charged, did the Postal Service receive any revenue from the 85,422 gift cards that were sold during the promotion? If yes, please explain.
 - b. Please explain the rationale behind the promotion and whether this is a promotion that may be revisited in the future.

6. Please refer to Library Reference, USPS-LR-MC2014-26/NP1, Excel file, “NP1 - Gift Card Cost Coverage.xlsx,” tabs ‘GiftCard Summary,’ which shows the estimated cost coverage for the proposed Gift Cards price category.
 - a. Please provide the derivation of the figures in cells C5 and C7. In the response, please provide all source inputs.
 - b. Please provide a description of the cost category identified in cell B7.
 - c. Please explain where accounting and bookkeeping costs for gift cards are included in the cost coverage calculation.
7. Please refer to Library Reference, USPS-LR-MC2014-26/NP1, Excel file, “NP1 - Gift Card Cost Coverage.xlsx,” tab ‘GiftCards Transaction Costs,’ which shows the estimated window transaction unit cost for the proposed Gift Cards price category.
 - a. Please reconcile the figures in cells G6 and G11.
 - b. Please confirm that these two figures are intended to report the same estimate. If not confirmed, please explain.
8. The Postal Service proposes to include Gift Cards as part of the Greeting Cards and Stationery product.
 - a. Please explain whether Greeting Cards, Gift Cards, and Stationery share “cost or market characteristics for which a rate or rates are, or may reasonably be, applied.” See 39 U.S.C § 102(6).
 - b. The current description of the competitive Greeting Cards and Stationery product in section 2610.1 of the Product List provides the items are “designed to be used to mail personal messages.” This does not fit the Gift Cards service which is designed to transfer money through the mail. To add Gift Cards to Greeting Cards and Stationery, the Postal Service proposes to broaden the description of the product to one “used for *or included in* personal messages sent by mail.” Please discuss the rationale

for including Gift Cards as part of the Greeting Cards and Stationery competitive product versus classifying Gift Cards as a stand-alone competitive product.

By the Chairman.

Ruth Y. Goldway